

Empowering MSMEs through financing and linkages

2013



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Foreword

The Micro, Small and Medium Enterprises (MSMEs) sector is the backbone of the country's economy as it is the principal contributor to manufacturing, exports and employment generation. Due to a climate of economic turbulence, the MSME sector has been battling the odds to stay competitive in the global marketplace, and it is only the strong entrepreneurial roots that run across most dynamic businesses in India, which have helped this sector sustain its growth momentum.

Among the various challenges that the MSME sector faces, access to finance and the lack of robust linkages remain the most critical. The institutional finance gap for the sector is high, with most enterprises struggling to access funds when they need it, and especially in the North-Eastern states, where viable and addressable debt finance demand stands at INR 0.2 trillion. The government has been encouraging Small Industries Development Bank of India (SIDBI) and other financial institutions to make easy credit available to the MSME sector. However, more needs to be done to help businesses get funds for increasing capacity and expanding across geographies. The role of Private Equity (PE) and Venture Capital (VC) funds in assisting the growth of small businesses has become increasingly important, as several family-run enterprises have taken steps to infuse professionalism in the business.

Another area of importance is the integration of MSMEs with the Global Value Chain (GVCs). MSMEs are capable of participating effectively in international production while accessing global markets. China has quite successfully leveraged these linkages for the growth of its MSME sector. Indian enterprises are also benefiting from outsourcing, offshoring and joint ventures. Strategically positioning themselves along the GVCs can help MSMEs cut costs and enhance market access, eventually reinforcing their role in the growth of the Indian economy.

I am sure this report will help the MSME sector, especially in east and north-eastern parts of the country, to better understand the challenges and devise strategies accordingly to deal with the odds. Consequently, the report will be useful for all stakeholders and would benefit the nation as a whole.



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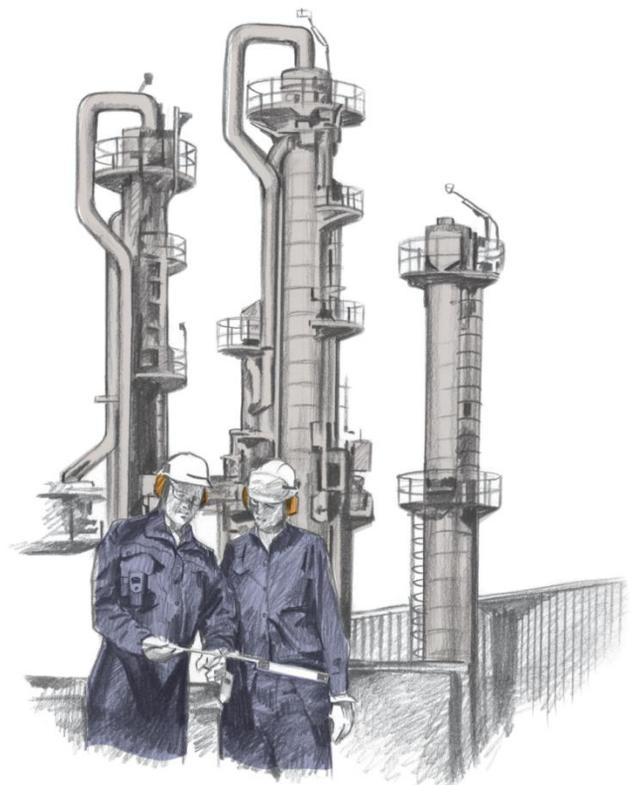


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MSME sector at a glance



MSME sector at a glance

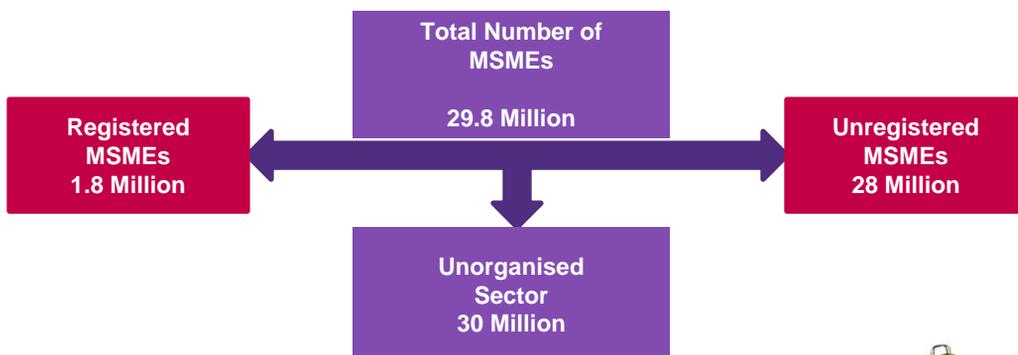
Micro, Small and Medium Enterprises (MSMEs) are the growth engines of our economy. In most countries, MSMEs constitute over 90% of enterprises. In addition, they contribute a major share to industrial production and exports besides creating employment opportunities. The Organisation for Economic Co-operation and Development (OECD) reports that more than 95% of enterprises in the OECD area are MSMEs. In these countries, MSMEs account for almost 60% of private sector employment.

According to a report by International Finance Corporation (IFC) that conducted a study across 132 countries, there are 125 million MSMEs with 85 million located in emerging economies. MSMEs have registered a growth of 6% between 2000-2009 globally, with Europe and Central Asia experiencing a growth of 15%.

In India, MSMEs contribute significantly to production, exports and employment, thereby playing a significant role in the economic growth of the country. As per latest estimates, the sector contributes nearly 8% to the country's GDP, 45% to the manufactured output and 40% to the country's exports, while providing employment to 60 million people in more than 28.5 million enterprises.

- India is home to over 440 lakh MSME units having gross output of more than Rs 1.8 lakh crore
- during the last four years, the sector has posted double digit growth
- the MSME sector contributes over 40% to the manufacturing output of the country and 8% - 10% to the GDP
- At present, MSME units in India produce more than 6,000 products
- of the total industrial units in India, 90% belong to the MSME sector

Broad Classification of MSMEs in India



Source: MSME Census, National Commission for Enterprises in the Unorganised Sector (NCEUS)



MSME sector at a glance

Key Statistics on Economic Contribution of MSME

Share of		Value
Industrial units	Key Statistics on Economic Contribution of MSME	95%
Industrial output		45%
Exports (in value)		40%
Employment (in millions)		69

Source: Ministry of MSME, Annual Report, 2009-10; Reserve Bank of India (RBI)

As per the 4th Census of MSME Sector, this sector employs an estimated 59.7 million people in over 26.1 million enterprises. During recent times, the MSME sector has consistently recorded higher growth rate when compared with the overall industrial sector.

As per the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the MSMEs are classified into two segments:

- (a) **Manufacturing Enterprises:** Refers to enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951.
- (b) **Service Enterprises:** Refers to the enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

Despite the laurels, the growth of the sector has been significantly constrained owing to gaps in financing needs of MSMEs. In addition to the dearth of access to formal finance, MSMEs also suffer from technological obsolescence, marketing constrains, inadequate infrastructure and scarcity of skills.

Distribution of MSME Enterprises in North-Eastern India

- Total number of Manufacturing Units: **0.2 Million** (Share of manufacturing enterprises: **2%**)
- Total number of Services Units: **0.8 Million**, (Share of services enterprises: **4%**)
- The contribution of the region to GDP: **2.6%**

Source: IFC

MSME sector at a glance

Major state-wise distribution of working enterprises

State/ UT	Number of working enterprises (lakh)	Percent share
Tamil Nadu	2.34	14.95
Gujarat	2.30	14.70
Uttar Pradesh	1.88	12
Kerala	1.50	9.60
Karnataka	1.36	8.71
Madhya Pradesh	1.07	6.84
Maharashtra	0.87	5.54
Rajasthan	0.55	3.51
Bihar	0.50	3.20
Punjab	0.48	3.08
Others	2.79	17.87

Source: MSME Annual Report 2012-2013

A recent IFC report corroborates the disproportionate geographic distribution of MSMEs in the country. Low-income states (Bihar, Odisha, Uttar Pradesh, West Bengal, Chattisgarh, Jharkhand, Madhya Pradesh, Rajasthan, and the north-eastern states including Sikkim) have 32.6% of India's total MSMEs. Within the country, north-eastern states account for less than 3% of the country's total MSMEs.

Most of the MSMEs in India are congregated together to form a cluster.

The Ministry of MSME defines cluster as a geographical concentration of MSMEs that face common opportunities and challenges to growth. According to the 4th Census of MSME Sector, India is home to a total of 2,443 clusters covering 321 products.

Within the country, the highest number of clusters are in Gujarat at 369, followed by Uttar Pradesh (359) and Tamil Nadu (350).

Distribution of MSME industries in North-Eastern states

State	MSME industry
Manipur	Handlooms Handicrafts, Sericulture, Food Processing
Arunachal Pradesh	Arts and Craft, Weaving, Cane and Bamboo
Meghalaya	Food Processing, Horticulture, Mining
Mizoram	Bamboo, Energy, Sericulture
Nagaland	Bamboo, Food processing, Horticulture
Tripura	Food Processing, Bamboo, Handloom Handicrafts
Assam	Tea, Tourism, Traditional Cottage Industry

Source: IFC

MSME sector at a glance

Despite the high concentration of MSMEs in the country, India still lacks an overall impetus towards enabling this sector to effectively integrate with global companies and contribute further towards economic growth. The key to integration lies in defining policies and procedures that can drive continuous monitoring and innovation as well as provide constant support to micro, small and medium enterprises.

With a view to provide an impetus to MSMEs, the Union Budget (2013-2014) has made the following provisions:

- Preference benefits (non-tax) to continue for 3 years even after they grow out of the category in which they obtained the benefit
- Refinance SIDBI (Small Industries Development Bank of India) fund enhanced from INR 5,000 crore to INR 10,000 crore

- A fund allocation of INR 500 crore for SIDBI to set up the Factoring fund.
- INR 2,200 crore fund allocation for setting up 15 additional Centres for R&D for MSMEs.
- Expenditure on incubator to qualify as CSR (Corporate Social Responsibility) activity to be notified by the Ministry of Corporate Affairs.
- MSME Exchange listing for start-ups is facilitated.
- Sector specific duty reductions for Leather & Gems & Jewelry sectors.

Besides, the government has also increased fund allocation to the sector in the 12th Five Year Plan (2012-17) to INR 24,000 crore from INR 11,000 crore in the 11th Five Year Plan.

Classification of MSMEs

Manufacturing Enterprises – Investment in Plant & Machinery

Description	INR
Micro Enterprises	upto INR 25 lakhs
Small Enterprises	above INR 25 lakhs & up to INR 5 crores
Medium Enterprises	above INR 5 crores & up to INR 10 crores

Service Enterprises – Investment in Equipment

Description	INR
Micro Enterprises	up to INR 10 lakhs
Small Enterprises	above INR 10 lakhs & up to INR 2 crores
Medium Enterprises	above INR 2 crores & up to INR 5 crores

Source: Ministry of MSME

Key challenges for MSME sector



Key challenges for MSME sector

Increasing competition and uncertainty due to the global downturn have increased challenges for the MSME sector in India. It becomes imperative for these enterprises to innovate, explore modern technology and put in place robust strategies to cut costs, gain efficiency and consistency, as well as further improve production, marketing and management functions.

Some of the key challenges constraining the growth potential of the sector are:

Marketing related challenges for MSMEs

The current slowdown in the global demand for goods and services and the depreciation of the rupee have created a pressing need for the sector to tap local demand and consumption. By reformulating their marketing strategies with a focus on creating a brand image for their products/ services in the local market, MSMEs can effectively tide over the situation. However, this is an extremely challenging task as 30-35% MSMEs lack a sales, marketing and accounts departments. Other constraints that come in the way of brand building are non-availability of adequate and timely credit at cost effective rates, limited marketing budget, non-availability of skilled sales and marketing personnel and technological bottlenecks.

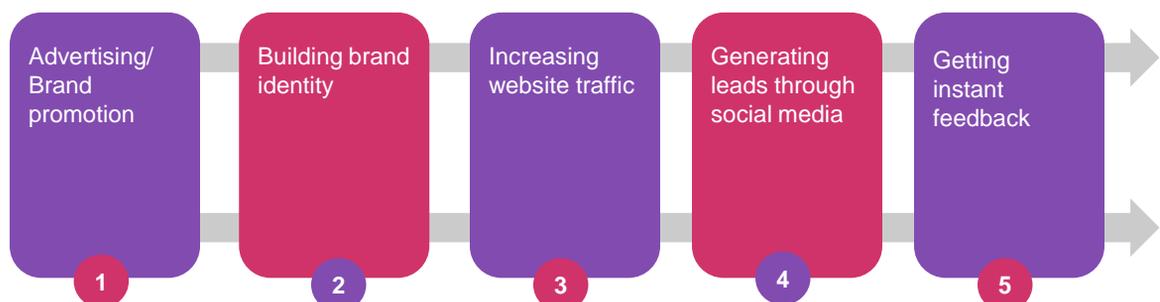
Thinking beyond traditional marketing practices and adopting new-age tools such as social media can help small enterprises promote their products and services both locally and globally.

Deploying innovative marketing channels such as website, search engine optimisation (SEO), social media, blogging and e-commerce tools can go a long way in communicating an enterprise's unique value proposition in the market. Digital media provides a level-playing field to MSMEs, both in terms of cost and reach.

Due to lack of sufficient knowledge, techniques and skills to use them, many MSMEs fail to leverage the new-age marketing tools optimally to achieve their desired objectives. Besides, as per a recent study, a large proportion of Indian MSMEs are also unaware of the effectiveness, measurability and predictability of using online advertising to reach the target audience.

In recent times, a large number of enterprises have begun to adopt new solutions to communicate effectively with customers and understand their needs. This helps gain valuable insights into customer behaviour and offers new opportunities to expand.

New-age marketing can help MSMEs



Key challenges for MSME sector

Human resources related challenges for MSMEs

Lack of access to high-quality talent hampers MSMEs in more ways than one. With large firms actively scouting the market for new talent, it only becomes more challenging for MSMEs to outplay competition. Inability to pay competitive compensation packages and inadequate employer branding often comes in the way of attracting bright minds into sector. Besides, difficulties in developing effective recruitment and retention strategies also comes in the way of growing in-house talent.

These enterprises also suffer from high rates of attrition owing to their inability develop sound induction and orientation processes and constant dissemination of the organisations' short-term and long-term goals to employees. Failure to present a clear career path to employees as well as lack of job rotation forms another key reason for attrition in MSMEs.

An overall lack the understanding and ability to determine the competencies that are required by an employee to fulfill his role and gain competencies and skills is generally lacking in MSMEs, which is a major deterrent to employee retention.

Hence, in order to attract talent and retain performers , it is imperative for MSMEs to undertake effective HR planning and ensure that the plan matches growth strategy.

In order to overcome challenges in hiring, training and retaining, MSMEs need to develop effective recruitment and retention strategies.

Following are some of the pointers:

- underscoring to the potential hires that they are growing organisations and provide conducive environment to the new incumbents to grow professionally as well as personally
- making potential employees aware of the fact that the exposure and the level of responsibility in a small firm is much larger than that in a big firm
- deploying new-age recruitment channels such as referral, internal transfers and graduate recruitment
- clearly communicating the key criteria for hiring a person and the key success factors for his/ her role
- adopting long-term incentive schemes to ensure that employees share the long-term vision/ goal of the organisation
- appraising employee performance, offering instant recognition for successful completion of a small task as a method for encouraging employees
- investing in training and development that leads to skill development and job enhancement



Key challenges for the MSME sector

Technology related challenges for MSMEs

Technology today is not a mere enabler of productivity and quality but plays a more strategic role in building competitive advantages. It can help MSMEs streamline processes, increase cost efficiency, improve adherence to quality standards and customer service.

Lack of access to modern technology, together with the absence of an enabling ecosystem which is a requisite for facilitating an active interaction in the technology transfer process comprise a serious threat to the growth of the sector. Besides, the growth of the sector is also inhibited by the 'limited interaction' between technology providers and technology seekers, minimal knowledge about upcoming technologies and the cultural and the regional differences in the developing nations.

Of late, MSMEs have been showing interest in adopting appropriate and affordable technologies and taking to the path of innovation to build their global competitiveness. Exposure to new-age technology will, in the long-run, facilitate Indian MSMEs to explore new markets and come out with innovative designs and features desired by the customers globally.

Policy-related measures taken by the government to improve the adoption of technology for MSMEs are:

- workshops being conducted by the Ministry of Micro, Small & Medium Enterprises on various aspects of WTO, anti-dumping seminars, Intellectual Property Rights (IPR), etc
- technology development services are provided to the sector by the Small Industries Service Institute (SISI)
- National Small Industries Corporation Limited (NSIC) offers several technical services to MSMEs through its Technical Services Centres, Extension Centres, Software Technology Parks and Technology Transfer Centres
- a range of IPR related services are provided to the MSMEs by the Intellectual Property Facilitation Cell, set up by the Ministry of MSME, Government of India
- Credit Linked Capital Subsidy Scheme (CLCSS) was initiated for technology upgrade by the MSMEs

In present times, technology and innovation have emerged as the most important forces available to organisations to tackle the challenges of business stagnation and downturn. For MSMEs, technology capacity building forms a prerequisite to avail emerging business opportunities, while retaining their growth, competitiveness and sustainable development. An effective information system to support and deliver information to different users is the need of the hour for the MSME sector.

Some recommendations that can be undertaken by the Government to improve access to new and better technology for MSMEs are:

- providing novel opportunities for international partnership for industries and clusters
- setting up online mechanisms for MSMEs to implement all the requisite transactions for conducting business in domestic and international markets
- improving capacity and productivity of enterprises by enabling them to procure complete and low-cost ICT solutions
- establishing institutions that can enable MSME innovators to leverage their cutting edge of research and innovation to get funds and technology know-how

In the spotlight: MSME Financing



In the spotlight: MSME Financing

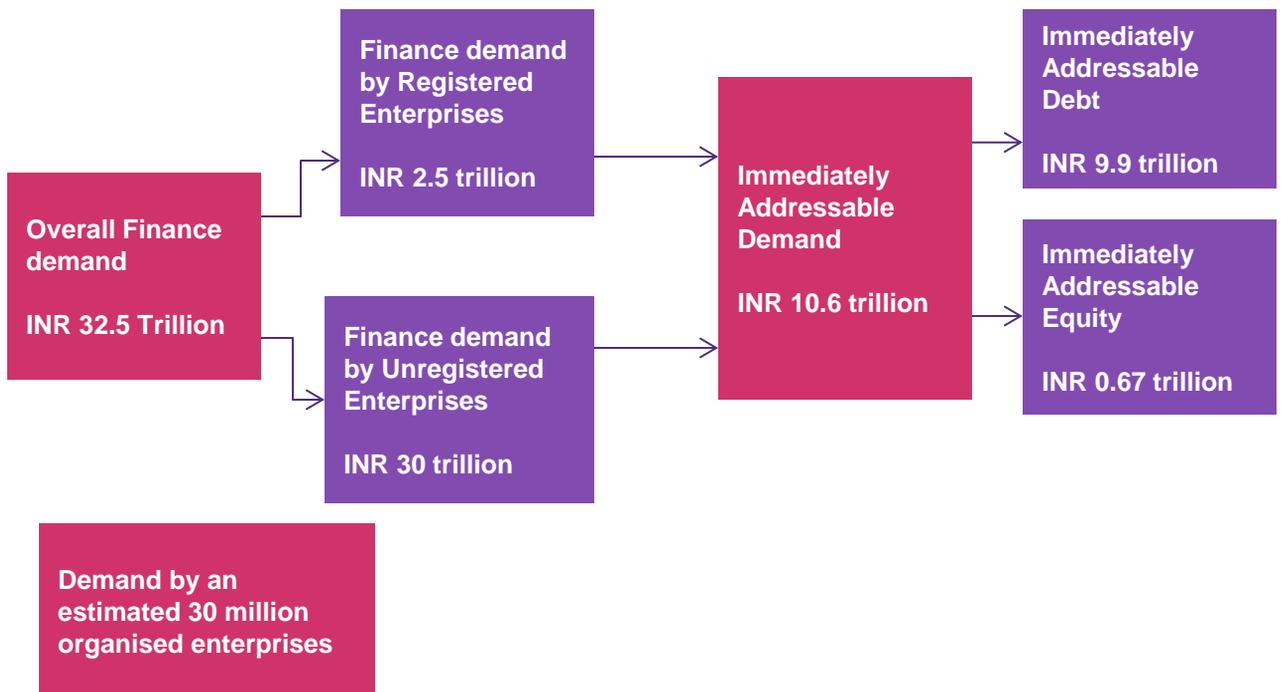
The financing needs of the MSME sector is dependent largely on customer segment, industry and size of operation. The current domestic market conditions are not conducive to provide enough opportunities for the MSME sector for raising low-cost funds. Due to higher risk perception, a large number of financial institutions have reduced their exposure to the sector.

Lack of adequate and timely access to finance has emerged as the major challenge to the sector constraining its growth. According to the International Finance Corporation (IFC), the MSME sector has a total finance requirement to the tune of INR 32.5 trillion, of which INR 26 trillion accounts for debt demand while INR 6.5 trillion accounts for equity demand. Of the overall MSME debt financing, while almost 78% (INR 25.5 trillion) is met through either self-financed or from informal sources, only 22% or INR 7 trillion account for formal source of finance.

Within the overall financing demand of the sector catered to by the formal sector, nearly 85% of debt supply is contributed by banks, with INR 5.9 trillion funded by Scheduled Commercial Banks. On the other hand, rest of the formal MSME debt flow is accounted for by smaller banks such as Urban Cooperative Banks (UCBs), Regional Rural Banks (RRBs) and government financial institutions (including State Industrial Development Corporations and State Financial Corporation) as well as Non-Banking Finance Companies.

Although financing to the MSMEs has increased in recent times, it is still considerably lower than the overall capital demand. The institutional finance gap for the sector is estimated to be to the tune of INR 20.9 trillion, excluding the entrepreneur's finance contribution of INR 4.6 trillion. **Within the North-Eastern Indian states, viable and addressable debt demand stands at INR 0.2 trillion.**

MSME Finance Demand Flowchart



Source: International Finance Corporation (IFC)

In the spotlight: MSME Financing

Formal financial institutions have the opportunity to finance a total demand-supply gap of INR 3.57 trillion for the MSME sector, after exclusions in the debt and equity demand. Combining the equity gap of INR 0.64 trillion and the debt gap of INR 2.93 trillion, the viable and addressable demand-supply gap for the sector stands at INR 3.57 trillion.

According to estimates, of the debt gap that is viable and can be addressed by financial institutions in the near-term within the MSME segment, INR 2.25 trillion, INR 0.5 trillion and INR 0.18 trillion is respectively accounted for micro, small, and medium enterprises. While medium enterprises in India are fairly well financed, the micro and small enterprises are together responsible for 97% of the viable debt gap.

Together supply-side gaps, such as a lack of investment funds focused on MSMEs and demand-side challenges such as the legal structures of enterprises contribute to the overall equity gap in the sector, which is focused primarily on the growth-stage enterprises.

Measures taken by the government

In recent times, the Government of India has been making concerted efforts to create a healthy business environment for MSMEs. Several policy initiatives were proposed in the Union Budget 2013-14 to support the growth of the sector. Some of these measures include:

- extending non-tax benefits such as Market Development Assistance (MDA) scheme and Design Clinics Scheme for an additional three years even after the units advance to a higher category
- the allocation of Small Industries Development Bank of India (SIDBI) refinancing facility has been doubled from Rs 5,000 crore in 2012-13 to Rs 10,000 crore

Financing to MSMEs in north-eastern states

Bank infrastructure	Contribution
Share of deposit	2%
Share of credit	1%
Credit Deposit Ratio	33%
Share of Bank Branches	2%

Source: IFC

Contribution of some north-eastern states to the viable and addressable debt demand

State	Contribution
Assam	64%
Tripura	14%
Manipur	9%

Source: IFC

In the spotlight: MSME Financing

Some of the other initiatives taken by the government to improve access to finance for the MSME sector include:

- accepting the recommendations of the Prime Minister’s Task Force on MSMEs constituted by the Government of India, banks were advised to attain 20% y-o-y (year-on-year) growth in credit to micro and small enterprises
- besides, banks were also advised to provide 60% of the Micro and Small Enterprises (MSE) advances to micro enterprises, which was achieved in stages – 50% in 2010-11, 5% in 2011-12 and 60% in 2012-13
- in 2010, banks were mandated to provide collateral-free loans to the MSE sector up to a limit of Rs.10 lakh, as per the recommendations of the Working Group constituted by the Reserve Bank of India
- in 2012, banks were advised to provide their MSME clients financial literacy and consultancy support either by setting up special cells at their branches, or vertically integrating this function in the Financial Literacy Centres (FLCs)

Financial support to MSMEs from government nodal bodies

West Bengal

Institute/ Government scheme	Form of support
West Bengal Financial Corporation (WBFC)	Term loan to MSMEs
West Bengal Industrial Infrastructure Development Corporation	Infrastructure support for water, power supply, roads, drainage, street lighting to some of the state's established growth centres
West Bengal Industrial Development Corporation Limited (WBIDC)	State government's nodal agency, established to promote and finance MSMEs, it supports such industries. It offers the required facilitation, financing, disbursal of incentives and support in establishing industrial parks
West Bengal Handicrafts Development Corporation Limited	Undertakes initiatives such as skill development and organisation of direct haats in rural and urban areas in order to provide a platform for promotion and development of handicrafts
Modular Food Park Modular Industrial Infrastructure Limited	The agency provides infrastructure at Dankuni, besides other kinds of support to food processing industries
The West Bengal Small Industries Development Corporation Limited (WBSIDC)	Enables growth of small scale industrial units by offering marketing assistance, infrastructural support, and other promotional assistance

Financial support to MSMEs from government nodal bodies

Jharkhand

Institute/ Government scheme	Form of support
State Government	<ul style="list-style-type: none"> • raw material focused market access • coordination support to micro finance institutions for MSMEs • on providing common facility centres (CFC), special benefits are given to MSME projects of a cluster. • schemes such as Cluster Development Programme for MSMEs and Credit Guarantee Fund Trust Scheme have been implemented • for bidding, tender forms are made available free of cost • the MSMEs are exempt from payment of Security Deposit (SD) and Earnest Money Deposit (EMD) • on government orders, bill discounting facility is made available

In the spotlight: MSME Financing

- in 2012, banks were mandated to acknowledge all loan applications either manually or online, submitted by their MSME borrowers. Further, it was also made imperative for banks to ensure that a running serial number is recorded on the application form as well as on the acknowledgement receipt
- separate dedicated exchange / platform for listing and trading of shares of SMEs has been established by the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE)

Efforts by the Government have helped increase the total outstanding credit provided by all Scheduled Commercial Banks (SCBs) to the MSME sector by 32% from Rs 3,622.90 billion in March 2010 to Rs 4,785.27 billion in March 2011. In addition, in March 2011, the total credit to the sector as percentage of Adjusted Net Bank Credit (ANBC) stood at 14.8% for the Public Sector Banks (PSBs).

Commercial, institutional and policy measures can go a long way in increasing availability of formal financing routes for the sector, while also ascertaining the long-term sustainability of these enterprises.

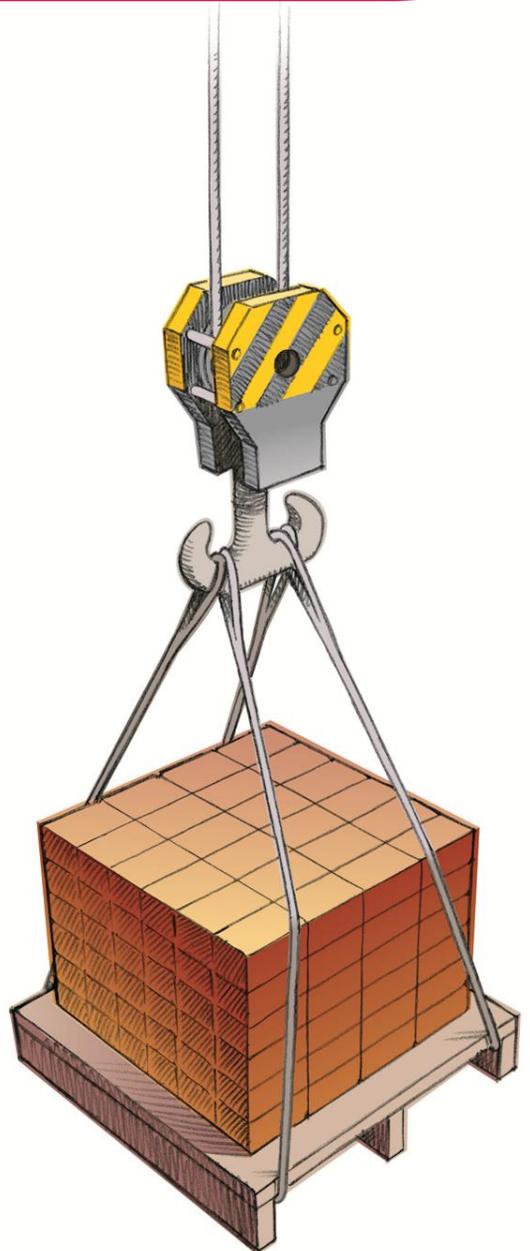
Following are some key recommendations to assist the growth of MSMEs:

- encourage private equity investments to not only unlock value for the company but also allow them to better structure themselves for rapid growth
- enhance access to alternative sources of capital like angel funds/risk capital for MSMEs
- address the fiscal/regulatory impediments to use of funds by the MSMEs
- promote adoption of the concept of factoring by banks and financial institutions for providing liquidity to MSMEs that can serve as an alternative source of working capital for them against their receivables

Some policies to govern and promote MSMEs in India

Scheme/ initiative	Nature of assistance
Micro, Small and Medium Enterprises Development (MSMED) Act, 2006	Facilitates the promotion and development of the MSME sector, while enhancing its competitiveness
National Manufacturing Competitiveness Programme (NMCP)	Encourages healthy growth of the manufacturing sector for dealing with competition in global markets and by the entry of multi-national corporations in the domestic markets
Prime Minister's Task Force on MSMEs	The recommendations cover 6 major areas including credit, marketing, labour, infrastructure, technology and skill development
Reservation/De-Reservation of products for manufacture in the Micro & Small Enterprise Sector	To help attain socio-economic development, through promotion of small units all over the country
Rajiv Gandhi Udyami Mitra Yojana	provide funding and assistance to the potential first generation entrepreneurs
Public Procurement Policy for goods produced and services rendered by Micro & Small Enterprises (MSEs)	Mandates Central Ministries/ Departments and PSUs to achieve an overall procurement of minimum 20% of total annual purchases of products produced/services rendered by MSEs within a period of three years
Initiatives for Women entrepreneurs	The MSME Development Organisation (MSME-DO) has introduced process/product oriented EDPs in areas like TV repairing, printed circuit boards, leather goods, screen printing etc. A special prize to "Outstanding Women Entrepreneur" of the year is being given to recognise achievements made by women entrepreneurs.

In the spotlight: MSME Linkages



In the spotlight: MSME Linkages

The term value chain refers to the full range of value-added activities required to bring a product from its conception, through design, sourcing of raw materials and intermediate inputs, production, marketing, distribution and support to final consumer. It comprises all the key activities associated with production, exchange, distribution, and after sales support for a given product or service.

Recent advancements in technology have made it possible for companies to segregate the facets involved in a value chain, enabling dispersal of such activities across different companies with each company focusing on its core strengths to contribute to the quality of end products.

Global value chains (GVC)

Geographic dispersal of value chains across borders to multiple country locations gives rise to GVCs. Several forces have been responsible for driving globalisation of value chains, including:

- increased competition
- technological progress, especially information and communications technologies (ICTs) development
- improved transport facilities
- availability of a large base of low-cost suppliers in areas of the world that experience rapid growth, in particular China and India

These give rise to cross-border production chains, usually comprising only two countries, a region or a global network, popularly referred to as GVCs.

Integration of MSMEs with GVCs

Leveraging their competitive advantages including low labour costs and raw materials, a large number of MSMEs have been witnessing linkages with global MSMEs.

Indian MSMEs have begun to grow their businesses and reap primary economic returns by tapping new markets in the chain of production that are typically found in areas outside manufacturing, such as design, branding and marketing. This has influenced the choice to outsource manufacturing tasks. Linkages between MSMEs from developed and developing economies enables both parties to obtain significant gains with respect to cost-cutting, while focusing on their core areas.

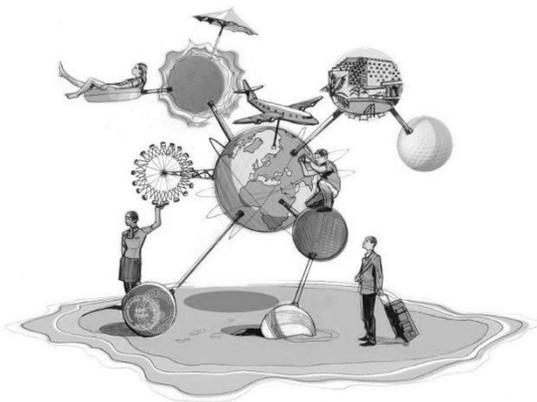
However, not all developing countries have been successful in promoting such linkages embedding foreign firms into the local economy in the long term. In large parts, the strategies for building linkages is dependent on the broader economic, social and cultural environment of a country. ,



In the spotlight: MSME Linkages

Challenges to integration of global MSMEs

With their geographical reach and innovation capabilities, MSMEs can help foster global economic growth. However, with the dispersal of services across different economies and diverse regulations surrounding each business operation, the integration of MSMEs globally faces several challenges.



Improving integration of MSMEs with GVCs

There exists widespread consensus that MSMEs are capable of participating effectively in international production while accessing global markets. Participation in GVCs by linking local producers, including MSMEs to international production networks (IPN) permits integration with the global economy. Linkage with the global value chains and production network forms one of the most effective strategies for accessing global markets.

Some of the options for optimising market integration of domestic MSMEs with the global value chain are:

Selling: Outsourcing in-house activities to MSMEs who have capabilities to deliver products or services in a more efficient and cheaper way throws open doors of tremendous opportunities for MSMEs. Thus providing them a path to enter global value chain

Offshoring: Involves movement of internal business processes to locations outside of a company's domestic headquarters. Helps in lowering costs and taking advantage of other local strengths, such as labour

Outsourcing: Delegating a select business function to a third-party vendor who would ideally be able to perform the task cheaper, better and at a faster pace

Foreign Market Entry: Setting up a wholly-owned subsidiary in the foreign market, by buying or building a facility. Provides access to raw materials, cheaper or uniquely skilled labour, technology, innovative operational methods, etc

In the spotlight: MSME Linkages

Foreign Direct Investment: The capital investment flow into a foreign Multi-national Enterprise permits investor to access other potential suppliers of the company, while connecting its own operations to the rest of the value chain. Besides, opening up linkages for supply elsewhere, FDI can also provide access to innovative technology, techniques, or research and development.



Joint Ventures and Strategic Relationships: Joint Ventures (JV) refers to a partnership arrangement in which each of the two businesses contribute capital to a newly created entity that they operate either together or through a separate management structure. The JV is accountable to the parent companies. Globalisation has given rise to a number of strategic relationships that enables a local firm to partner with global enterprises to complement each other's capabilities. In such arrangements, the local partners bring in local knowledge, enabling ease of forging local partnerships and also share the risk of entering a new market.

Global value chains



In the spotlight: MSME Linkages

The rise of China in the global value chain

The development of MSMEs has increasingly contributed to China's economic growth. At present, China has over 5 million MSMEs which contribute to 60% of China's GDP and 50% of the tax revenues. These enterprises employ over 200 million people, accounting for more than 82% of employment opportunities.

Today, MSMEs make over 99% of all enterprises in China. The processing trade regime has played a critical role in helping Chinese MSME markets to grow at an unprecedented pace, by permitting firms to buy /import inputs duty-free provided they are further used to produce processed goods destined solely for export promotion to developed countries.

Factors which have led to emergence of China as a favoured offshore location are:

- low labour costs
- political stability
- export promotion policies
- geographical proximity to its East Asian neighbors
- access to the regions of upstream suppliers and downstream markets



Factors pushing China up in the Global Value Chain

1 Processing trade regime

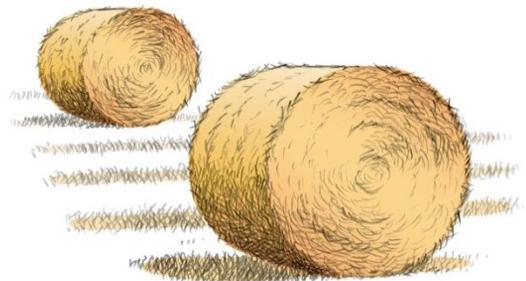
2 Availability of diverse sources of funds

3 High GDP in savings leading to capital accumulation

4 Support to joint ventures (JVs) with foreign players and providing subsidies

5 Increase in educated labour force

6 Support to build technology capabilities



Appendices

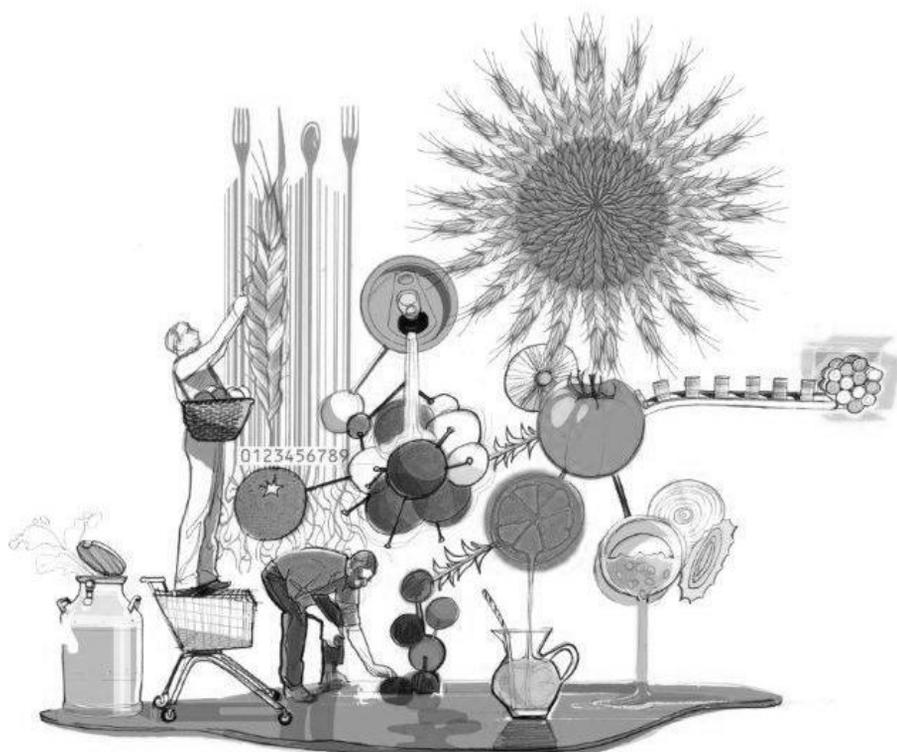


Appendix 1

Share of clusters in registered MSME sector

	Number of working enterprises	Employment	Original Value of plant and machinery (INR crores)	Fixed investment (INR crores)	Gross output (INR crores)
2443 clusters	718140	3244507	37937.11	151096.5	134463.5
Registered MSME sector	1563974	9309490	105024.6	449138.4	707510.3
Share of 2443 clusters (%)	45.92	34.85	36.12	33.64	19.01

Source: 4th Census of MSME Sector



Appendix 2

State-wise distribution of clusters

State	Number of clusters	Number of working enterprises (lakh)	Employment (in lakh)	Original value of P&M (INR crores)	Market value of fixed assets (INR crores)	Gross output (INR crores)
Jammu and Kashmir	10	0.02	0.04	7.91	1353.89	915.69
Himachal Pradesh	18	0.05	0.07	24.52	67.17	271.93
Punjab	82	0.17	1.36	950.36	4468.41	14536.24
Uttaranchal	44	0.10	0.18	54.51	182.65	675.94
Haryana	42	0.08	0.97	717.34	3183.41	8494.98
Rajasthan	77	0.14	0.83	1146.46	3098.79	6060.82
Uttar Pradesh	359	0.86	2.48	714.40	53.29.30	9155.96
Bihar	81	0.16	0.44	85.25	1291.56	418.26
Manipur	4	0.01	0.03	3.27	8.95	21.65
Mizoram	6	0.01	0.07	24.19	48.40	91.04
Meghalaya	4	0.01	0.02	8.24	12.62	38.67
Assam	17	0.03	0.10	23.37	46.34	727.69
West Bengal	47	0.08	0.35	224.06	934.65	1504.34
Jharkhand	26	0.05	0.13	27.99	54.04	205.68
Orissa	16	0.02	0.09	31.26	74.56	171.59
Chhattisgarh	41	0.11	0.17	25.00	37.53	75.38
Madhya Pradesh	228	0.56	0.86	75.77	180.65	500.98
Gujarat	369	1.29	6.09	21396.28	83837.08	17619.44
Maharashtra	69	0.28	2.92	3006.75	12083.26	20582.11
Andhra Pradesh	68	0.15	0.97	1035.45	3028.27	8818.53
Karnataka	227	0.66	2.91	1131.85	2904.35	7839.47
Goa	2	0.00	0.00	1.49	8.70	16.93
Kerala	255	0.84	3.19	1178.14	6738.12	6682.12
Tamil Nadu	350	1.53	8.15	6041.55	22120.69	29030.16
Andaman and Nicobar Island	1	0.00	0.01	1.70	3.09	7.89

Source: 4th Census of MSME Sector

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About Indian Chamber of Commerce (ICC)

Founded in 1925, Indian Chamber of Commerce (ICC) is the leading and only National Chamber of Commerce operating from Kolkata, and one of the most proactive and forward-looking Chambers in the country today. Its membership spans some of the most prominent and major industrial groups in India. ICC is the premier body of business and industry in Eastern and North-Eastern India. The membership of the Chamber comprises several of the largest corporate groups in the country, with business operations all over the country and abroad.

One of the most pro-active Chambers in India, the ICC has been privileged to interact and host several of the esteemed Indian Presidents and Prime Ministers in the past. With over eighty years of service to the nation, the ICC retains the character of being the premier Chamber with senior Indian industry leaders forming the core of its Executive Committee or the Governing Board of the Chamber. Its enlightened leadership and membership has enabled the ICC to move ahead and respond pro-actively to the dynamic changes that have taken place in the world order and with a vision for the future.

The ICC constituents are mainly large manufacturing units with operations all over the country and abroad. A large number of corporate bodies of India form the backbone of the organization. Leading industrial promotion organizations, banks & financial institutions, as well as governmental organisations, are members of the ICC and lend a diversified membership base for the Chamber.

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